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Caribbean Basin

Market Development Reports

Caribbean tourism proves to be a resilient industry in the land of sand, sun and calm.

2002

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Report Highlights:

U.S. Consumer food exports to the Caribbean region increased 8 percent in 2001 to a record \$667 million in spite of a worldwide economic downturn and fewer tourists since the September 11th terrorist attacks. Although the tourism industry, the economic lifeblood of the Caribbean economies, suffered an immediate and severe hit, the current outlook predicts that the industry will resume growth in the second half of 2002.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Miami [C11], C1

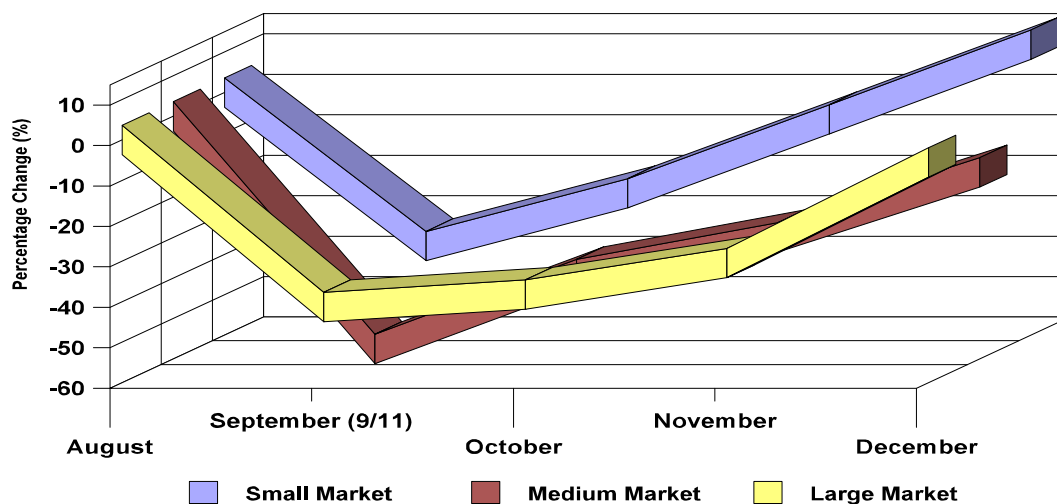
U.S. consumer food exports to the Caribbean region increased 7.7 percent in 2001 to a record \$667 million in spite of the effects of a worldwide economic downturn and fewer tourists since the September 11th terrorist attacks. Although the tourism industry, the economic lifeblood of the Caribbean economies, suffered an immediate and severe hit, the current outlook predicts that the industry will pick up its habitual rhythm of growth in the second half of 2002, as business travel resumes and consumer confidence returns.

2001 Caribbean Tourism Update

According to the World Tourism Organization (WTO), growth in the normally buoyant Caribbean tourism sector grounded to a halt in 2001 as annual international arrivals slipped by 3.5 percent due to the terrorist attacks on September 11 and the weakening economies of major tourism generating markets. Caribbean tourist arrivals totaled 16.7 million in 2001, compared to 17.3 million the previous year. The year 2000 was hailed as an exceptional year for tourism, with special millennium events boosting international arrivals by 6.9 percent and, in some cases, causing travelers to advance trips that would have been taken in 2001.

WTO estimates that during the first eight months of 2001, annual tourist arrivals in the Caribbean grew by 2.0 percent, more than 2 points lower than the average annual rate of 4.3 percent over the past ten years. During the last four months of 2001, the region suffered an average drop of 16.4 percent in arrivals with substantial decreases on every island. Even though numbers decreased in all markets, smaller islands that cater to luxury tourism fared better than larger islands.

After a low in September, tourist arrivals climb steadily



Small Markets, with an average of 10,000 visitors per month, include Anguilla, Antigua & Barbuda, Bonaire, Curacao, Grenada, Montserrat, Saba, St. Eustatius, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Turks & Caicos Islands
Medium Markets, with an average of 37,500 visitors per month, include Aruba, Barbados, Bermuda, the Cayman Islands, Dominica, Martinique & Guadeloupe, St. Maarten, Trinidad & Tobago
Large Markets, with an average of 125,000 visitors per month, include the Bahamas, Cancun, Dominican Republic, and Jamaica

2001 TOURISM SECTOR RESULTS

HOTELS

Hotels, due to the nature of their business, usually have very high operating and financial leverage (a large component of their operating and financial cost structures are fixed) which is bad in times of decline. Therefore, the decrease in tourism was felt by nearly all hotels. The slowdown in the economy was felt as early as March 2001 when room occupancy started slipping by double digit figures (20-30 percent) at most properties across the region. Occupancy figures plummeted to below 50 percent following the September attacks and finished the year at approximately 65 percent.

AIRLINES

In the weeks after the September 11th tragedy, the airlines lobbied Congress and secured a bailout package, but the continued fear of flying crippled the airline industry nonetheless. Airlines cut back flights and increased security measures causing extensive delays and inconvenience, which in turn, hurt some islands. In response, the governments of some islands now pay the airlines to prevent flight cancellations. For example, Aruba pays American Airlines US\$ 80,000 a month to keep it from cancelling any of its five daily arrivals.

CRUISE-SHIPS

Immediately following the events of September 11th, cruise lines felt a sharp decline in tourist arrivals. But their quick recovery has been at the expense of the airlines and hotels as many people's willingness to travel shifts to destinations closer to home. "Drive-To" ports-of-call and clever marketing campaigns have helped passengers find inexpensive, all-inclusive cruise travel more appealing.

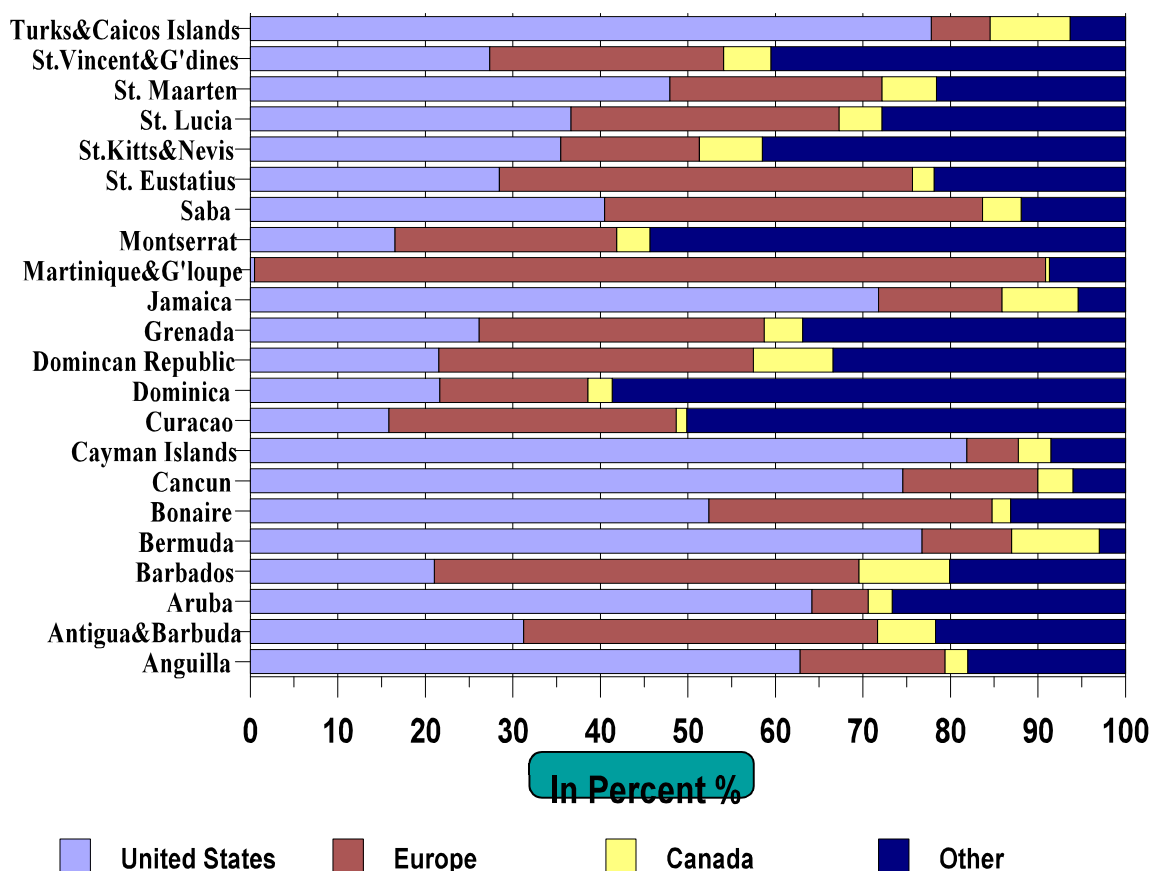
BUSINESS

Most Caribbean nations, except Cuba, depend on the United States as their main supplier of goods. As tourism slipped after the attacks, so too did exports to the region. In addition, business travel slumped dramatically immediately following the attacks with an increase in alternative modes of communication including Internet and video conferencing.

2002 Caribbean Tourism Outlook

Past experience has shown tourism to be one of the world's most resilient industries. Due to the Caribbean's push in tourism promotion, with a special focus on security, family and discounts, the fallout from September's terrorist attacks was less severe than expected. The Caribbean ranks as the world's most tourism-dependent region, and thus, marketing can be considered more important in the Caribbean than anywhere else in the world. According to the World Bank, the bulk of Caribbean countries count on tourism to generate upward of 25 percent of gross domestic product, while a few, such as the Bahamas and Antigua & Barbuda, generate around 50 percent of their income from visitor spending.

U.S. Tourists Dominate in the Caribbean



The United States is the primary source of visitors to the Caribbean basin, accounting for more than 46 percent of air travelers and 80 percent of cruise ship passengers. The countries that are most reliant on American tourists suffered the greatest losses as the region was cut off from American tourists immediately following the attacks. At that point, island governments, in collaboration with international tourism organizations, began focusing their sights on new opportunities from European, Canadian and intra-regional markets while luring back the U.S. tourist. Creative advertising campaigns targeting non-U.S. visitors focused on differentiating the Caribbean basin as a distinct region with a unique travel experience as well as a safe haven for cultural understanding and business contact. The campaign targeted to the U.S. visitor described the Caribbean as a safe destination that is 'close to home.'

In addition, innovative promotions have proven to be successful in resurrecting the struggling travel industry. Tourism, the largest earner of foreign exchange in the region, has focused on bundling the Caribbean region as a single travel destination and in doing so has formed cooperative alliances with international organizations and agencies. The objective is to contrast everyday existence with a life of sand, sun, entertainment and calm.

Such promotions and programs include:

- Family packages, i.e. kids stay free
- Discount theme holidays, i.e. romantic, adventure, cultural, spiritual
- Loyalty programs, i.e. extra night stay
- Reduced and flexible hotel rates
- Virtual Reality travel arrangements, i.e. interactive view of islands, excursions and hotels
- Free airfares with hotel night purchases
- Elimination of minimum stay requirements
- Elimination of Saturday night stay requirement for business travelers
- Elimination of advanced purchase restrictions
- Upgraded security with minimal inconvenience
- Lower fees for weddings and free excursion packages for honeymooners
- Fixing a conversion factor of 1 Euro to \$1US for monetary exchange convenience
- Providing concessions for the transportation of equipment targeting niche markets, i.e. diving and golf enthusiasts
- Incentives for travel agents

2002 TOURISM SECTOR OUTLOOK

HOTELS

To entice visitors, hotels have drastically reduced rates and have offered incentive plans for family packages and advanced bookings.

AIRLINES

The airline industry has launched aggressive programs aimed at reducing restrictions and discounting airfares in an attempt to thank customers for flying while urging them to travel again.

CRUISE-SHIPS

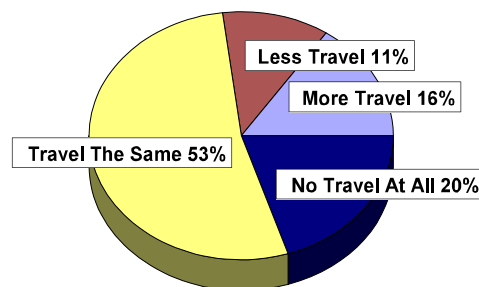
The major cruise lines, Carnival, Royal Caribbean, and Princess Cruises, have seen 85-90 percent recovery in bookings but that has come at a price, literally. The companies have sharply discounted their fares and are using low prices as their principal pitch to fill berths. In response to increased passengers, many cruise lines have repositioned their ships from Asia and Europe to the Caribbean for the season. Yet, while overall the Caribbean is the biggest beneficiary of the cruise-ship redeployments, the Caribbean islands that are closest to the North American marketplace have benefitted the most.

BUSINESS

Fortunately for airlines and hotels, and despite the fact that companies have moved to trim travel budgets, business travel is still largely an unavoidable necessity. With convenience programs such as the "Fast Track Pass" recently launched in Barbados and "Pre-Clearing U.S. Customs and Immigration" on some islands, business travelers can once again enjoy the Caribbean's business friendly environment.

Signals indicate that the Caribbean's main tourism season this year, which extends from November to April, will be a period of stabilization and recovery. The latest Travel Confidence Survey taken by the Travel Industry Association of America (TIA) underscores the fact that basic American attitudes about travel remain unshaken and that consumer confidence in travel is steadily returning.

2002 Travel Plans Among Americans



Source: Travel Industry Association of America data

The hope throughout the Caribbean is that visitors will look to the islands as a warm, familiar escape from a troubled world. Travel industry experts assure that this downward trend was finite and that a reversal is in effect. Growth has begun slowly, with significant increases reported in the second half of 2002 and counting on a stable economy and no further terrorist attacks, the Caribbean could experience record growth of as much as 7.1 percent, generating as many as 140,000 new jobs in 2003.